

International Capital Mobility

CEE Growth & Development

UPCES

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Feldstein-Horioka Puzzle

- Savings and investments:

Theory : $[Corr(S, I) = 0]$

Reality : $[Corr(S, I) \neq 0]$

Sources of Capital (Money) Movements

- Multinationals (WB and the like)
- Bilateral (intergovernmental borrowings and donations)
- FDIs and Portfolio investment
- Remittances

Determinants of FDI

- Unit labour cost
- Gravity factors
 - Market size
 - Proximity
- Tax incentives
 - Tax holidays and accelerated depreciation
 - Tax haven and offshores
 - racing to the bottom
- Political stability and wars
 - Balkans and Caucasus
- Corruption
 - Sand or grease
 - Pervasive and arbitrary corruption

Types of FDI

- Internal market oriented
- Export oriented

Roles of FDI

- Source of money and capital
- Source of ideas and technology
- External economies
 - Horizontal spillover
 - Vertical spillover
 - forward spillover (none)
 - backward (significantly negative)